

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 AMMAN 001452

SIPDIS

E.O. 12958: DECL: 02/25/2014

TAGS: [PGOV](#) [ECON](#) [EFIN](#) [JO](#)

SUBJECT: JORDANIAN MPS APPROVE GOVERNMENT BUDGET, BUT WARY
OF PRICE & TAX INCREASES

REF: AMMAN 00652

Classified By: Ambassador Edward W. Gnehm for Reasons 1.5 (b), (d)

SUMMARY

1. (C) Following a lengthy debate, 77 out of 97 deputies present in the Lower House of the Jordanian Parliament voted February 19 to approve the government's budget for 2004 as proposed. Prior to the vote, the government made a concerted effort to engage MPs and public opinion makers on the need to address the country's financial deficit, but many MPs continued to resist plans to increase subsidized prices of petroleum products and to raise the sales tax. Although Prime Minister Fayez publicly promised to reevaluate these revenue-generating measures, senior Jordanian officials, including the Prime Minister, the Deputy Prime Minister, and the Minister of Finance reassured Under Secretaries Larson and Taylor and the Ambassador that the government remains committed to implementing fuel price hikes. End summary.

LOPSIDED VOTE FOLLOWS LONG DEBATE

2. (U) After four consecutive days of debate, the Lower House (i.e., the Chamber of Deputies) of the Jordanian Parliament approved overwhelmingly on February 19 the government's proposed budget for 2004 by a vote of 77 to 20. Thirteen deputies were not present for the vote. Of those weighing in against the budget, 14 belonged to the Islamic Action Front (IAF). All other parliamentary blocs voted to approve the budget, although MP Mamdouh Abbadi (East Banker, Amman-3rd District), former mayor of Amman, defied his Democratic Alliance bloc to cast a negative vote.

3. (C) Prior to the debate, the budget had been reviewed and approved by the Chamber's Finance Committee. MP Abdullah Al-Jazi (East Banker, Southern Badia) told PolOff that the budget did not face serious opposition in committee since he and most other members of the Finance Committee were solid supporters of the government. (Five of the 11 committee members, including Al-Jazi, belong to the pro-government National Reformist bloc.) The committee did, however, issue a number of "recommendations" for the government to consider, including increasing the income tax on insurance companies from 25 to 35 percent to generate additional revenue.

4. (U) During the debate on the Lower House floor, 103 deputies of the 110-member Chamber engaged in a marathon of comments focused not only on the budget, but on demands for services for their constituents as well. Under current Lower House rules, debates prior to votes on legislation can continue as long as deputies continue requesting from the Speaker time on the floor. Several local pundits criticized MPs for straying far from the budget in their speeches. Prominent columnist and TV show host Jamil Nimri, for example, labeled the debate as "exceeding the limit since MPs have already delivered their views and demands during the policy statement debate."

----- --
GOJ GOES ON OFFENSIVE TO DEFEND PRICE/TAX HIKES
----- --

5. (C) As reported reftel, Prime Minister Fayez announced in January plans to raise subsidized prices of petroleum products by an average of nine percent and to increase the general sales tax rate from 13 to 16 percent. 45 out of 67 deputies attending a special meeting in January approved a non-binding resolution against these measures intended to shore up the government's financial deficit. Apparently caught off guard by this strong opposition, and nervous of possible repercussions on the budget itself, Fayez and his Cabinet engaged in "damage control" to counter the resolution's symbolic impact. Government Spokesperson Asma Khader quickly told reporters after the resolution that the government "respects and understands the will of the people's representatives" and plans to "reach a formula acceptable to both parties," though she cautioned that "other solutions are hard to find under the circumstances." Fayez and Finance Minister Mohammed Abu Hammour subsequently met with the MPs of each of the parliamentary blocs, including the IAF, to

explain both the reasons and the necessity for the proposed tax and price increases. According to press reports, Fayez stressed his awareness of the plight of the Jordanian poor and pledged to ease the impact of any decision to increase prices and taxes.

16. (C) In addition to meeting with MPs, Senator Jihad Al-Momani, who is also editor-in-chief of the "Shihan" weekly paper, told EmbOff that Fayez, Finance Minister Mohammed Abu Hammour and other government officials arranged an unprecedented "off the record" meeting with about 30 editors and columnists on February 11 to discuss Jordan's financial situation. According to Momani, Fayez acknowledged missteps in explaining the need for price and tax increases to the public and said that the government planned to take visible action on high-profile corruption cases, and to enact government belt-tightening measures, before implementing these increases. Fayez also expressed frustration with unwise "conspicuous consumption" by low-salaried Jordanians, particularly with respect to cell phones and automobiles, and defended U.S. economic assistance as more than generous. Concurrent with this meeting, Khader announced that the government had recently referred two major corruption cases to the General Intelligence Department's Anti-Corruption Unit for investigation and would seek further savings in government expenditures.

MPS REMAIN SKEPTICAL

17. (U) Despite the government's efforts, many MPs continued to express opposition to price increases and tax hikes during the budgetary debate. IAF MP Mohammad Abu Fares (West Banker, Amman-5th District) reiterated the views of other Islamist deputies in demanding that the government "deal with the budget deficit without hiking prices and removing fuel oil subsidies like previous governments did." MP Khalid Breik (East Banker, Northern Badia) pointed to a perceived widening gap between rich and poor and called for stricter measures in collecting taxes from the affluent rather than price and tax increases that would hit lower-income Jordanians hard. Other deputies, however, defended the government's proposed measures. MP Nayef Abu Mahfouz (West Banker, Amman-4th District), for example, stated that price hikes "are part of (the government's) commitment to the decade-long economic reform program."

18. (U) In a brief address to the Lower House prior to the budget vote, PM Fayez told MPs that the government "will look again at the (price hikes) and search for alternatives to ease hardships on the poor." He further reiterated that "we are considering raising the salaries of military and civilian employees as well as pensioners." Finance Minister Abu Hammour similarly told MPs before the vote that "in accordance with House wishes, the government will reevaluate the (price increases) proposed to the legislature earlier," and said that lower income categories would be taken into consideration when raising prices. "Financial burdens, however, will be placed on tobacco, alcohol, and mobile phone users," he added.

GOJ COMMITTED TO RAISE PETROLEUM PRODUCT PRICES

19. (C) In meetings February 21 and 24, State U/S Larson and Treasury U/S Taylor heard from their interlocutors, including Fayez and Abu Hammour, that the GOJ was committed to fiscal discipline and to weaning the budget off its former reliance on subsidized oil grants. They were very pleased with their success in the Lower House, seeing it as a vindication of their efforts to be transparent and open with Parliament and the public about Jordan's economic challenges. Abu Hammour detailed efforts to restrain spending to meet IMF-agreed deficit targets, but noted that a sharp drop in foreign grants and the deferral of some payments due in 2003 would make reaching the 3.9 percent of GDP target for 2004 especially tough. Accordingly, he pledged that petroleum product prices would be raised as planned. Abu Hammour also said, however, that he had agreed to take another look at the impact of an increase in bottled gas prices on the poor.

COMMENT

10. (C) Perhaps stung by the backlash generated by the candid announcement in January of proposed price increases and tax hikes, PM Fayez and his ministers were careful to engage MPs and public opinion makers prior to the budget vote. Through private meetings and public statements emphasizing the government's concern for less-affluent Jordanians, the government paved the way for the Lower House's overwhelming approval of the budget and, it hopes, possibly softened public reaction in advance of an eventual

increase in fuel prices and the sales tax.

11. (C) Though it won the budget battle in Parliament, the government still faces a public perception problem -- on one hand it is widely seen as "spendthrift" (complaints about frequent royal overseas travel and expensive cars for high-ranking military and government officials are common), while on the other hand it claims that the people must tighten their belts and pay higher prices. Given these contrasting images, Fayez and his ministers should not have been surprised by the outcry against price hikes and tax increases. They would do well to remember the importance of shaping public and parliamentary opinion in preparing for future reform measures.

Please visit Embassy Amman's classified web site at <http://www.state.sgov.gov/p/nea/amman/> or through the Department of State's SIPRNET site.
GNEHM